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U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

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The Foreign Exchanges.

THE abnormal state of the foreign exchanges is the most notable feature of the financial situation. The merchandise balances in favor of the United States have averaged approximately $140,000,000 per month over a period of seven months, and as this one-sided trade continues it becomes increasingly difficult to find the means of payment. Our current indebtedness in London, which in ordinary times is large, owing to the great facilities of that money market, has been wiped out. The speculative holdings of American securities have been mainly liquidated, and there has been constant selling of our securities held for investment, but, notwithstanding these offsets, about $120,000,000 in gold has come to this country since January 1st last. Of this over $90,000,000 has come from the gold store of the Bank of England at Ottawa, and over $50,000,000 of it has come since May 15th. Even this movement has scarcely sustained the rate of London exchange in this market, which in June made a new low record at $4.76¼. This means that it costs about two per cent. to convert a sterling credit in London into dollars in New York.

Foreign purchases in this market are continuing with undiminished activity. Our crops promise to be large and as these countries are not in position to produce goods for export in normal quantities, the balances in our favor must continue to be large. The foreign holdings of American stocks and bonds are now lower than they have been in many years, and the opinion grows that the aggregate is considerably below the common estimate, which has been $5,000,000,000 to $6,000,000,000 for interests of every description. Moreover, although these holdings are still large, those remaining are tenaciously held, and unless other means of creating credits are devised, it looks as though the gold movement in the coming months would have to be heavier even than in the past.

The situation is made more acute by the fact that the Ottawa fund is now practically exhausted. The Bank of England has depositories in South Africa and Australia, but any considerable shipments will probably have to come from Paris or Petrograd, and a continued movement of gold at the rate of several million dollars per day across the oceans is all but impracticable.

The problem directly concerns the United States, for without means of payment there will be no European market for our grain and cotton this fall, not to speak of other supplies or of the enormous contracts now being executed upon foreign account.

After gold shipments and the return of our securities the alternative is the placing of loans in this country, and the most promising suggestion as to these is a scheme for borrowing American securities owned in Great Britain and France, and pledging them here as the basis of an issue of notes. This is being done in France, and if the securities can be obtained the policy may be largely extended. That loans of this character can be placed in the United States, the proceeds to be expended for our products, admits of no doubt. There is so much idle money in this country that it does not seem improbable to say that a billion dollars of credits might be established if high-grade railway and municipal bonds of American issue are available for the purpose.

An illuminating report, furnishing at least a part of the information which has been keenly desired by financiers of this country, has just been issued by Mr. L. F. Loree, the chairman of the committee which was asked to report on the holdings in American railroads abroad. This report shows the foreign holdings to be $2,576,000,000, and is based upon the investigation of the registers of a hundred companies, and also, as far as the bearer bonds are concerned, on the income tax certificates filed with the respective companies; hence it is within its limitations reliable.

Undoubtedly since the investigation was made, many of these securities have been sold in this market, thus reducing the total amount to that extent. It must be borne in mind, however, that among American securities held abroad many are of a local character, such as utility and industrial corporations and others of a like nature, all of which must be added to the foregoing since they would not appear in the statement prepared by Mr. Loree. The amount of these cannot be determined other than by checking the income tax certificates filed with the United States Government, and it would seem desirable to have the Government investigate this important feature in our economic position as furnishing valuable data upon which to base plans for future finance.

The Gold Problem.

Aside from the difficulties of transportation, the allied countries are naturally reluctant to reduce their stocks of gold, which are the basis of their

currency systems, but it is not likely that the governments will discontinue the purchase of war supplies, or of such necessaries as food, in order to retain gold. The need for these things is imperative, and the gold was accumulated largely for just such an emergency. It is moreover, a mistake to suppose that the domestic currency systems will collapse unless there is a given percentage of gold behind them. An irredeemable paper currency will fluctuate in value, and hamper transactions with other countries according to the degree of the fluctuations. It is a misfortune for any country in this age of international trade to be off the gold basis, but when a country is engaged in war smaller misfortunes do not count. The fact is that a currency fixed upon a gold basis is a luxury that only a few countries have been able to afford until comparatively recent times. Russia and Austria-Hungary established gold payments in 1897 and Italy since then. Few countries have gone through a great war without suspending specie payments. The Bank of England was off the gold basis throughout all of Napoleon's time and our own civil war experience is familiar. It is safe to say that none of the countries will hesitate to use their gold as long as it lasts, for governmental purposes, although they are likely to disregard the fluctuations of exchange in ordinary commercial transactions.

The Bank of France holds about $780,000,000 of gold, which constitutes a reserve of about 33 per cent. against its note circulation outstanding June 1st. The Bank of Russia holds $855,000,000, which nearly amounts to 50 per cent. of its outstanding circulation.

Effect of Exchange Fluctuations.

The discount of approximately two per cent. on the pound sterling in converting London credits into dollars, while extraordinary if judged by normal conditions, is not so in comparison with all the other abnormalities of the present trade situation, such as the fluctuations in ocean freights and the rise of comodity prices. It is a very small conversion cost compared with that on other European units. The cost of converting francs into dollars is ten per cent., of converting marks twelve to fifteen per cent., and of rubles twenty to twenty-five per cent. Under present conditions such discounts do not necessarily mean that the currencies of these countries are depreciated in the home markets to any such degree. Of course, if goods are imported and paid for at such rates the prices of such goods must be affected accordingly, but unless imported goods are a large factor in the market it will be some time before their influence upon other prices is perceptible.

In ordinary commercial transactions a premium on foreign exchange has the effect of adding to the price of both exports and imports, thus tending to encourage the former and discourage the latter. A correspondent of the London *Economist*, writing from Copenhagen, says that the effect in that market of a premium of five per cent. on the pound sterling and a discount of seven per cent. on the mark, as compared with the Danish currency, has been to turn Danish trade from England to Germany. It evidently does have an influence under purely commercial conditions to bring international trade to an equilibrium, and this is why nations are able to get along fairly well without a metallic basis for their currencies.

The above rates only apply to exchange bought and sold on the market; they do not signify that the respective governments have made their purchases in this manner. They have either forwarded gold or used their credit.

Danger of Inflation in the United States.

Experience has shown that irredeemable paper money, if not issued in excess of the normal needs of a country for currency, will maintain a fairly stable value, but if issued in excess it will depreciate, because it can be neither retired nor exported. If the whole amount is forced into use, the purchasing power will decline to that of the amount normally required to do the work. This principle also applies to gold and bank credit based upon gold in such a situation as now seems to be in prospect in the United States.

Ordinarily, there is a free movement of gold among the countries that use the metal as the basis of their monetary systems, and the effects of an increasing supply are spread over them all. Various influences, such as the relative development and prosperity of the countries, the currents of trade between them, and the movement of securities are effecting a constant distribution. It is a principle of political economy that these movements act and react upon each other in such manner as to maintain or quickly restore an equilibrium. If a country by reason of favoring conditions obtains an undue share of the stock of gold, a stimulus to overdevelopment will be given, prices will rise until it becomes a good country to sell goods in and a poor country to sell goods from, when the trade balance will turn over, gold flow out, and the check is administered. In recent years the large volume of securities of international standing has had much to do with stableizing the relations between money markets.

At this time these checks and equalizing influences are absent. Trade is subject to none of the ordinary rules. Gold is coming to this country in enormous amounts and our sales are free from competitive conditions because the demand is imperative, and this is the only market where the goods can be had. There is no prospect for any counter movement while the war lasts, but eventually the counter movement will come, supported by all the influences that naturally work to restore the equilibrium, and in what position will this country be to meet it? For the time we lose touch with normal world value , and are subjected to conditions that have always worked mischief. It is a singular demonstration of the fundamental interdependence of modern society that we can not safely use this gold until normal conditions are restored and the other nations are able to sell us something for it. We dare not use the available credit ourselves, for that can only be done by wholesale borrowing on the part of the public—borrowing far beyond the needs of our legitimate, natural, and safe development. The

condition of the country under such an indebtedness, and with the inflation of nominal values which such an amount of expenditure would cause, would be most precarious, and indeed hopeless until the deflation was accomplished. With the war over and natural laws again in play, with prices and wages on a fictitious basis, the best country in the world to sell in and the poorest to sell from, with productive capacity over-developed and the export business gone, our losses would far exceed all the profits of the war period.

More War Loans.

The expenditures for the war are increasing at a rate which indicates that the operations are on a very much larger scale. The French Minister of Finance, in a recent statement to the Chamber of Deputies, stated that for the first five months to December 31st, the expenditures of France were at the rate of $263,000,000 per month, for the first half of 1915 they would probably average $323,000,000 per month, and for the three months to the end of September they were estimated at $363,000,000 per month. Subscriptions to the Treasury bonds, which yield about 5.6 per cent. interest, have been coming at the rate of about $200,000,000 per month, and the British Government has made a one year loan of $300,000,000 to bear the same rate that it pays on its own bonds. The deficit, amounting to about $1,100,000,000, has been advanced by the Bank of France. The bank has been authorized to lend to the Government up to a limit of $1,800,000,000.

Another loan has been arranged in the United States to be secured by the deposit of American railway bonds which have been held by French investors. It has been a policy of the French Government in the past to require foreign securities listed on the French exchanges to be made payable in francs, and this now turns out to be unfortunate, as it interferes with the sale of such issues in other markets. A canvass is now being made for American bonds of this class with a view to issuing them as collateral for a loan in New York, the terms of which have been agreed upon.

The amount of the loan will depend upon the success in collecting bonds, but it will probably be from $30,000,000 to $50,000,000, and the proceeds will be used in payments for purchases in the United States.

When the first British war loan was offered last fall, it was calculated that the war expenditures of that Government were at the rate of $2.250,000,000 per year; about three months ago the Prime Minister announced that, including the aid that must be granted allies, they were running at about $10.000,000, per day, and the new Chancellor of the Exchequer, Mr. McKenna, in presenting his bill for a new loan last week, announced that they were now about $15,000,000 per day and still rising.

For the last three months the British Treasury has been borrowing at fixed rates on Treasury bills, accepting all the money offered at 2¾ per cent. for three months, 3⅝ for six months and 3¾ for nine and twelve months. From April 1st to May 29th the enormous total of $770,845,000 was borrowed in this manner, the money market remaining very steady throughout, apparently supported at these rates by the Treasury offerings. Since June 1st the market has been higher and applications have fallen off, which may have influenced the government to bring out the new permanent loan announced on the 21st instant.

The terms of this loan, which provides for an offering of $5,000,000,000 in all, and $1,250,000,000 for fresh money at this time, are remarkable in that they permit the refunding of all of the outstanding debt if offered in connection with subscriptions for the new bonds. These bonds are offered at par and bear 4½ per cent. interest, which is a much higher return than any British government security has carried for many years. The loan of $1,750,000,000 issued last year bears interest at 3½ per cent. but at the issue price netted subscribers 4 per cent. These, however, have recently declined on the market to about a 4¼ per cent. basis, and this decline was accepted as a warning that the next issue would have to pay more. But if the new issue should be offered on better terms than the last, it would inevitably suggest that another issue might be on still better terms, and as there is a strong motive for buyers to hold off on a falling market, the government evidently concluded to meet that influence at once by offering a conversion privilege. Accordingly it proposes that any holder of the old loan who will subscribe for an equal amount of the new may also exchange his old bonds for new at par. It goes still farther, and proposes that any holder of consols, which draw only 2½ per cent., who will subscribe for an equal amount of the 4½ per cents., may exchange his consols for the new issue on a basis of 66⅔ for the consols. This is equivalent to a return of 3 per cent. on consols. The offer has a double effect, first in offering a direct inducement to the holders of the old securities to come in on the new loan, and, second, in offering an assurance that subscribers to all government loans will be protected against more favorable offerings later in the war.

Demands on the London Market.

The manner in which the London money market has met the demands on it from all quarters has been a source of continual wonderment, for it has not only taken care of the British loans, but to some extent provided money for all its allies.* At a meeting of the Finance Ministers of France, Italy, and Great Britain, held at Nice recently, it is understood that a loan of large proportions to Italy was agreed upon. In view of all these demands, and the constant enlargement of the scale of war operations, the necessity for increasing taxation, and for obtaining a more general subscription to the war loan, is fully realized by the British leaders. A special effort is made to secure the latter result by issuing the new loan through the post offices in denominations of $25, and of also issuing certificates applicable upon the bonds in denominations of five shill-

* In the May number of this Bulletin, a statement was made to the effect that under the terms of the first British war loan, which provided that the Bank of England would loan the face value of the bonds upon them, some of the English banks were carrying the amount of their investment in these bonds under the heading, "Cash and at Short Notice." We have had several letters protesting that this practice, if followed at all, was limited and disapproved by the leading authorities, and we are convinced that this is the case. The statement was made upon the strength of a similar statement in one of the leading financial journals of London.

ings. Employment is now very full in England, with much overtime, and a large entrance of women into industry; moreover, war bonuses have been granted in many of the industries, but these are claimed to be necessary to offset the higher cost of living. Appeals are made for economy from every pulpit, rostrum, and newspaper, and it is urged that very great savings are possible if all the people are willing to make the sacrifices they should. It is very difficult, however, to change the habits of any class of people. Few are able to do it voluntarily, but necessity is a stern teacher.

Duration of the War.

The Spring with one month of Summer has passed, but although another nation has entered the war and the struggle has increased in intensity, no progress has been made that points to an early termination. There is a heavy preponderance of population on one side, 350,000,000 against 135,000,000, and the London *Economist* places the number of men under arms at 16,890,000 for England and her allies against 12,477,000 for the German allies, but this preponderance has been offset by superior organization, discipline and preparations. Population counts for nothing in war unless it is so organized, equipped and directed that the weight of numbers is brought to bear upon the point of contact with the enemy, either at the battle front or supporting the battle front. The soldiers of all the armies are fighting with a bravery never surpassed, and whatever gains are made, now on one side and then on the other, are due to the massing of superior numbers and overwhelming gun-fire at the points of attack. This is evidently the only way in which a decisive advantage can be won, and so far the superior organization, mobility, and internal support of the German allies have enabled them to more than hold their own against their adversaries, notwithstanding that the former have been in large degree cut off from outside supplies while the latter have had access to the markets of the world. In truth, the German allies have had a much more ready and ample supply of equipment and munitions from their own stores and factories than the Allies have had from all the rest of the world. Their strength has been and is in their economic independence, their ability to get along without the rest of the world. If they can continue to do this, their financial problems can be managed, for they will have no payments to make abroad and payments at home can be made with the paper currency. The German government has practically taken over this year's crop of food before the harvest and will supervise its distribution. It will be only an extension of this authority, already in part accomplished, for it to regulate the other industries, controlling prices and distributing the population where it will be most serviceable for the support of the nation and the army. Finance is simplified under such conditions, for a socialistic state is established. There is no need to float loans when the state directs every man's labor, names his pay, fixes prices, and prints the money. Loans if issued become only a form of compensation distributed by the State. It hasn't come quite to this yet, but Germany is far enough on the road to point to its probable course if there is any want of means to carry on the war.

Conscription in England.

The other countries are headed in the same way, but are far behind Germany, not only in actual organization but in the preparation of their people for it. Enlistment in England is still voluntary, and while it has been rapid enough for the ability of the country to equip the forces and supply them with war materials, there has been a lack of the central authority and control over all resources that is the secret of effective organization. The Defense of the Realm Act gives the government power to take over any works or property that may be utilized, but the opposition to conscription, which is chiefly advocated for the power it would give to mobilize and direct the industries, is not yet overcome. The leaders of the unions have been taken into the councils of the government, are sent to the front to see war in the trenches, and gradually the fighting, sacrificing spirit is being infused into the home population. However it may be accomplished, an effective organization requires that the entire population shall subordinate all personal ends and considerations to the national interests, and submit implicitly to the government's management of everything, giving what it asks and taking what it gives. In a contest to exhaustion, when gold is gone and credit is gone, the people who will do this most completely, with the greatest devotion and efficiency, will win, subject of course to the weight of numbers if all are equally devoted and efficient. The test of efficiency in the last degree will be ability to maintain the largest percentage of the population on the firing line, and that will depend upon the industrial efficiency of those remaining and their ability to live in the simplest manner. In the final stage, this is what a contest for supremacy means, and it is toward this that the present situation is developing.

The Socialistic State.

Of course such suppression of individuality, of initiative and independence, is inconceivable under ordinary conditions. No people would give such authority to their rulers except temporarily and to preserve their liberties against foreign aggression. The system carried out permanently and to its conclusion would give the Spartan state, with control over marriage and the selection and exposure of infants. Because all such tyranny is intolerable in this age of the world, analogies drawn from the effectiveness of such an organization in war to its feasibility in time of peace are useless. There could be no such subordination of individual will and interest in time of peace, and any people that would submit to it would soon fall behind all the rest of the world in all the tests of civilization and even in the ability to make war. The scheme of state socialism has a temporary efficiency in emergencies because of its power to compel prompt and united action, but it is dependent at last upon the resources which it inherits from the regime of liberty.

The War of 1870-1871.

It is of interest in connection with the figures for expenditures upon this war to refer to the cost of the war between Germany and France which lasted about eight months in 1870 and 1871. That was considered a great war at the time, and the combined armies included about two and one-half millions of men. The direct cost of the war to France, not including the indemnity of $1,000,000,000 paid to Germany after the war, or the value of the provinces ceded to Germany, but including all monies raised by the central government, all requisitions imposed by the Germans upon occupied cities and provinces, and property destroyed or carried away, was estimated by Sir Robert Giffen at $820,000,000 of which $600,000,000 was directly expended by the central government.

The direct war loans, together with the cost of maintaining the German army in France until the indemnity was paid, aggregated $508,000,000.

The war loans issued by the several states of Germany aggregated about $300,000,000 and Sir Robert Giffen added $50,000,000 to cover expenses otherwise met. He also estimated the capitalized value of the war pensions on each side at $25,000,000. As the war was all fought on French territory, there was no loss of property in Germany and the indirect losses were small.

Bond Market in June.

Investment demand in June has been very irregular. The month draws to a close with the volume of transactions on the New York Stock Exchange approximately equal to the volume of June, 1914. The decision of the Supreme Court in the case of the United States Steel Corporation, announced early in the month, was a favorable factor in stimulating confidence, and for a number of days thereafter bond dealings were on a large scale. Since then the interest of investors has appeared and disappeared in gusts.

Bond sales on the New York Stock Exchange for the month of June (up to and including the 24th) amounted to $46,670,500, as against $64,284,200 for the month of May, 1915, $114,899,000 in April, 1915, and $45,409,500 in the similar period of June, 1914. Total sales for the year up to June 24th amounted to about $385,000,000, as against about $365,000,000 in 1914. The average price of forty selected bonds, as given in the New York *Times* increased from 82.59 on June 1st, to 83.50 on June 15th, declining to 83.35 on June 24th. The average price of this list of bonds at the close of the month is approximately the same as it was at the beginning of April before the heavy investment demand of that month carried it to the high record of the year.

The most active issues on the Exchange were the New York Central Convertible 6's and the Westinghouse Electric & Manufacturing Company Convertible 5's, with transactions up to June 24th of $6,450,000 and $3,358,000 respectively. The activity in connection with the second issue is due to the proposed plan which gives certain new advantages to the bonds in exchange for the elimination of a restrictive clause in the indenture. The demand for the New York Central 6's is a reflection of the growing belief that these bonds are intrinsically cheap.

The most important event of the month was the sale by the City of New York on June 29 of $71,000,000 bonds, consisting of $25,000,000 4½% fifteen year serial corporate stock, and $46,000,000 4½% fifty year corporate stock. The average price bid for the total issue was 101.272 plus, which represents a premium of $903,309 on the total issue of $71,000,000 securities. The issue was three times over-subscribed.

General Business Conditions.

The business situation maintains the characteristics that have marked it since conditions began to improve. The general indices are for a volume of trade below normal, but some industries are very busy, and there are numerous signs of increasing activity. There is no better index to the volume of goods moving than railway earnings, and these are still running below the figures of last year, although that was a poor year. In 1914, the entire railway system of the country reported, 245,170 miles, earned $241,090,842; in 1915, the entire system, 247,701 miles, earned $237,696,378. In 1913, the earnings were $245,170,143. The eastern roads have had an increase of five per cent. in their rates, granted last December. Net earnings are making a better showing than a year ago, but this is the result of drastic economies which in turn are a part of the general policy of retrenchment that makes business bad. The offerings of commercial paper are light, showing that the firms which usually resort to the market are able to handle their present trade without assistance.

Practically all lines of trade are slow, except as they are helped directly or indirectly by war orders, but the influence of these is extensive. All of the way up and down the copper, lead and zinc industries, from the mines to the producers of ammunition, there is great activity, and this affects large areas. In northern Michigan, Montana, Utah, Nevada and Arizona, copper mining supports important communities and the same is true of lead and zinc mining in Idaho, Utah, Colorado, Missouri and, in a lesser degree, in several other states. The prices of these metals are now on a very profitable basis, and every mine and smelter that can be brought into operation is working to capacity. When to these mining groups are added the farmers who grow grain and produce wool, meats and food products generally, it will be seen that a large proportion of the producers from original sources are unusally prosperous at this time. On the other hand the regions dependent upon cotton and lumber have been depressed, and manufacturing is generally light, except as war orders have stimulated it, which is in many localities.

The steel industry is approaching capacity in ingot production, but the different branches of finished products are uneven. While war orders are a large factor, the home business is better; a good many orders that had been held up have been released and the number of small orders is very good. Domestic railway orders are light, but some large foreign orders for railway equipment, notably from

Russia, have been received. The production of pig iron is at the rate of about 27,000,000 tons per year, as compared with 18,000,000 in January, 23,300,000 for the full year 1914, and 31,000,000 for the record year 1913.

While some of the steel companies will profit so largely by the steel business that they can afford to be somewhat indifferent about business for a time after the war is over, the men who take a large view of the industry are concerned about the effect of their business after the war is over. The steel business in the long run is dependent largely upon new work, upon construction, and it is prosperous in those periods when enterprise is active and capital in large amounts is available for investment. While there will be need for considerable steel for reconstruction purposes in Europe, they cannot think that the total amount of capital available for new construction in the world will be as large as it would have been without this war. Moreover, this war business is such a factor at present that a restoration of the domestic demand to normal proportions would cause a serious congestion and would either impede a normal revival or result in a considerable expansion of productive capacity.

This question of expanding facilities to meet a demand evidently temporary is perplexing not a few people. Presumably the good business man carefully considers what he can afford to do in the way of making a permanent investment under such conditions, and in some instances it is said that the total cost of such outlays is included in the contract, but there is an incalculable factor of future effects upon the general situation in the industry. This new capacity, which will be unbalanced in our industrial organization, will be like our new acquisitions of gold, perfectly harmless if unused, but has potentialities of mischief. A sound development is a natural development or a permanent development, and all other may be properly viewed with misgivings.

The movement of staple goods is slow, a fact ascribed generally to bad weather and bad roads over a large part of the country, to a considerable degree of idle labor even at the present time and to the necessity of economizing to catch up after last winter's widespread unemployment. Also some people think there is a general impluse to economy, inspired by the profound impression made upon the people by the waste and suffering from the war, and they point to the fact that distribution is light even in the districts most prosperous. The clothing trade is poor and the same is true of the shoe business, and the textile industries are now doing only moderately well. Luxuries and such goods as house furnishings are selling poorly.

The domestic trade in bituminous coal is a little better and now estimated by competent authorities at 20 per cent. under normal. The foreign trade is enjoying a boom. Exports in April were 3,000,000 tons, against 772,000 in that month last year, and this business has been rapidly increasing since, American coal taking the place of British in the Mediterranean and South America.

Notwithstanding the slow recovery, there is a confident feeling throughout the country based upon the good crop prospects and a general conviction that the war is bound to strengthen the economic position of the United States and conduce to its prosperity. The wheat crop promises to be, if not a record-breaker, at least close to the record-breaker of last year. The cotton crop acreage is down probably ten per cent. but the crop is looking very well, and there is a considerable acreage of grain in the cotton states. The corn crop is backward and suffering from too much rain, but there is yet time for it to make a good crop.

The Decision in Steel Corporation Suit.

The most important single event of the month to the business community of this country was the decision of the United States District Court for the district of New Jersey, denying the petition of the Department of Justice for a decree for the dissolution of the United States Steel Corporation. If this decision were final, and the principles laid down in it were definitely established as the law of the land, the stimulating effect would be very great. Probably nothing else has weighed upon the spirits of the business community in recent years with such a depressing influence as this suit against the Steel Corporation with the public policies that it stood for. There has been no support for the suit in any quarter where there was intelligent knowledge of the operations of the corporation; on the contrary, there was general agreement that important economic benefits had been gained, and that it would be a public misfortune to have the corporation forced into dissolution, to say nothing of the confusion and disturbance that would be incidental to the task of breaking up the great organization and dissolving the constituent corporations into their original factors.

The Harvester Case.

The effect of the decision is modified for the present by the fact that in the International Harvester case, which has strong points of similarity, the United States District Court for the district of Minnesota came to a different conclusion. In both cases the courts have practically cleared the defendant corporations of any abuse of power, either toward competitors or the consuming public. In the Harvester case, the Court held that the organization was illegal, because it included so large a proportion of the production in its line that it must be necessarily held to be in restraint of trade. It said that if the companies "were not in themselves unlawful there was nothing in their expanding of the lines of manufacture so as to make an all the round business that could be condemned," and added:

> "There is no limit under the American law to which a business may not independently grow, and even a combination of two or more businesses, if it does not unreasonably restrain trade, is not illegal; but it is the combination which unreasonably restrains trade that is illegal, and if the parties in controversy have 80 or 85 per cent. of the American business, and by the combination of the companies all competition is eliminated between the constituent parts of the combination, then it is in restraint of trade within the meaning of the statute, under all of the decisions."

Judge Sanborn, one of the three trial judges, dissented from this view, holding that the issue was not properly over the act of organization, but the effects of it, and said:

"The particular facts proved in this individual case not only fail to show that the defendants were unduly or unreasonably restraining or attempting to monopolize interstate or foreign trade, or threatening so to do at the time this suit was commenced and for seven years before that time, but they established the converse."

In the Steel case the leading opinion holds that while restraint of competition may have been in the minds of the organizers "the real underlying influence" was a belief that economies in management, production, and distribution would be effected. These economies have in fact been realized, and the corporation has been successful and profitable in consequence without raising the price of products to consumers.

In the Steel case two of the four judges joined in a supplementary opinion, the distinctive feature of which is their conclusion that the organizers of the Corporation (1) intended to create a monopoly and to restrain trade, and (2) combined with others and attempted to monopolize trade within the meaning of the Act. They agree, though, that the Corporation had not been conducted with the intent of securing a monopoly, and did not have the power to secure one. They joined with the other two judges in the decision that a decree of dissolution was unwarranted.

It is evidently true that the International Harvester Company at its organization included a larger proportion of the total business in its line than the Steel Corporation ever had, but this seems to have been the only difference in the two cases. In neither case was there such control over the essentials of production as to exclude successful competition, but the preponderance of capital and output and trade experience was considerably greater in the case of the Harvester Company.

The Law Against Monoply.

The Court's review and analysis of the Steel case is very full, and the doctrines enunciated seem to afford ample protection against unfair and destructive competition without placing limits upon the growth of a business so long as that growth is accomplished under fair and open policies, and does not destroy what the Supreme Court calls the "potentiality of competition."

It will be some time before all the comprehensive phrases in which judicial opinion expresses itself are fully defined to the understanding of everybody, but by the time this case, the Harvester case, the Shoe Machinery case, and the Keystone Watch Company case have been passed upon by the Supreme Court, the dark places should be pretty well cleared up. The recent opinions of the lower courts generally indicate an effort to find rules of interpretation that will give a considerable degree of flexibility to the law, and they lay increasing emphasis upon the methods by which a business is conducted, rather than upon the size of the business. This is certainly true of the decision in the Steel case. The opinion quotes the Supreme Court as having defined the law as prohibiting such acts as by intent or inherent nature "prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade," and then goes on to interpret this phrase as follows:

"For example if this Steel Company was in any way guilty of unfair business competition, if it was guilty of such conduct as to unfairly force a competitor out of the steel business, or if it unfairly prevented those who wanted to go into the steel business from doing so, then the Steel Company was, in the judgment of the Supreme Court, prejudicing the public interests by unfairly driving individuals out of business or preventing them from entering it, and it was also injuring the public by unduly restraining trade. So also if this Steel Company was restricting output in order to exact unfair prices; if it was buying up competing plants and dismantling them to needlessly restrict output; if it was by reason of its controlling power furnishing the public with inferior goods; if it was using its power to needlessly and unfairly reduce wages; if it were seeking to deceive purchasers by a false appearance of competition when in fact it owned or controlled such seeming competition—then it was prejudicing not only that portion of the public which desired to buy steel, but the public interests generally by unduly obstructing the course of trade, and thereby preventing the steel business from moving in its natural and normal channel."

The Findings in the Steel Case.

The Court addresses itself to these points in a review of the evidence. It finds that at the time the Steel Corporation was formed a new era in the industry was naturally developing as a result of improvements in the methods of making steel and the substitution of steel for iron. Production was rapidly increasing, and it was possible to effect great economies in manufacture by specialization, *i.e.,* by devoting entire works continuously to a single product, instead of shifting from one line of goods to another; that it was possible to effect other economies by integrating the various steps of manufacture from the mining and transportation of ore, up through the making of pig iron, billets and other basic material, to the production of important lines of finished goods, so that the operations would be closely related and harmoniously directed throughout; that yet other economies were possible in the marketing of these products, particularly abroad, under one sales organization; and that further economies were possible by having plants located in different parts of the country, in order to save freight charges in the delivery of goods. The Court found that these economic considerations were sufficient to justify the integration that occurred. In support of the view that the various properties were acquired for the general purpose of forming an efficient organization, rather than to restrict competition, it is pointed out that the plants so acquired, instead of being shut down, were enlarged, and that no subsequent purchases were made except in pursuance of the original plan and for the purpose of balancing up the various branches of production. The increased production of the company since its organization has been provided in the main by newly constructed works instead of by the purchase of competitors.

The Court finds that, when the Steel Corporation was organized in 1901, the total finished roll product of the United States was 13,000,000 tons, substantially divided between 50.1 per cent. by the Steel Corporation and 49.9 by its competitors; that in 1911, when this suit was begun, the total production of the United States had risen to 19,000,000 tons, and that of the 6,000,000 tons increase the Steel Corporation produced 2,600,000 tons and its competitors, 3,400,000 tons. Confining the calcula-

tion to such products consumed in the United States, leaving the foreign trade out of the account, it finds that in 1911 the Steel Corporation produced about 40 per cent. and its competitors about 60 per cent.

The Court finds that such basic supplies as pig iron, ingots, and rods, upon which numberless other industries are dependent, are free from any monopolistic control, and that "any substantial producer of such basic articles can by selling such products at such lower price as he sees fit, compel all producers of such supplies, including the United States Steel Corporation, to also lower their prices." It finds also that the entire eastern seaboard can be supplied with ores from Cuba, Brazil, and Chile at costs as low and in some instances lower than the cost of Lake Superior ores at Pittsburg, and that with the completion of the new Erie Canal, it will be possible to deliver Lake Superior ores in New York harbor below the present cost of delivering them at Pittsburg.

New Competition.

The Court finds that since the Steel Corporation was formed a large amount of capital has been invested in competitive plants of the most modern and efficient type, located at different points in this country, so that there is vigorous competition in all markets. It gives a list of eight important companies that have been increasing their tonnage faster than the Steel Corporation, and quotes their officials to show that they have no fear of their ability to maintain themselves in any struggle for business. The Court is convinced by the evidence that "any one of these large concerns by lowering the price of any substantial steel product it sells can depress the obtainable price; and conversely that no single concern by raising the price of any substantial product can raise the obtainable price."

The Court finds no evidence of any attempt to monopolize the market by aggressive attacks upon single competitors in the markets most important to them. On the contrary, "the proof shows that the Steel Corporation in the exercise of its own business judgment has elected to publicly announce its prices, to adhere to them with all buyers alike, and to give timely notice of its purpose to change them." The Court compares this voluntary policy to the policy as to rate-making enforced by the Inter-State Commerce Commission upon the railways. It finds that this policy has tended to prevent the extremes of high and low prices that occurred in periods of activity and depression before the Corporation was organized. It had been the practice of the more aggressive and best equipped companies in dull times to endeavor to run full at any sacrifice of prices, a policy that was gradually clearing the field of weaker competitors by driving them into bankruptcy. In times of heavy demand, the common practice was to exact premiums for early delivery which made the prices excessively high. The policy of fixed and public prices to all has made prices more uniform, and given a stability to the industry that it did not have before. To quote from the opinion "it has made steel products non-speculative and has therefore benefited all dependent iron and steel manufacturers by enabling them to have a steady, non-speculative supply of those basic steel products on which their plants depend for operation."

Promoting Foreign Trade.

The Court finds that by means of its extensive organization, its large capital, the diversity of its products, and the great volume of its business the Steel Corporation has been able to greatly increase the exportation of iron and steel products. When it was organized, the total exports of such products from this country were about $31,000,000 per annum, but these sales were made in a desultory way, largely for dumping purposes, and without any attempt to develop the foreign trade in a systematic and permanent manner. The Steel Corporation created a subsidiary company, known as the Steel Products Company to handle this business. It owns some forty warehouses in important foreign trade centers in which ample stocks of all goods likely to be called for in the trade are carried. There are fifteen of these warehouses in South America. There are many other places where the goods are kept on sale through representatives, over 300 in all, in sixty countries. These depots afford the facilities for the prompt dispatch of orders to all parts of the world. For example, a warehouse is maintained at Antwerp, although there are practically no sales in Belgium, because Antwerp is an important shipping center with frequent sailings to many points, and for the same reason there is a warehouse at Trieste to accommodate trade in the Adriatic and eastern Mediterranean. The results of efforts to create a trade in British Columbia is described. A warehouse was established at Vancouver, but the rail freight rate on steel from Pittsburg to Vancouver was prohibitory as against the water rate from Liverpool and a customs discrimination of 33 1/3 per cent. in favor of British steel. The Steel Products Company established a line of steamers of its own through the Straits of Magellan. These steamers touch at several ports on the West Coast of South America and Mexico, some of which have no other regular steamers from the United States, and they have been carrying considerable freight for other manufacturers in this country who have no other facilities for reaching these ports. In order to obtain return freight, these steamers load with lumber or coal for the Gulf of California; there they reload with copper matte for Dunkirk, France, and in France take on chalk for New York. The Steel Products Company now owns twelve steamers and has several times that number chartered. In order to justify such extensive arrangements for marketing and transportation as these, the Court finds that a great variety and large volume of products is necessary. It finds that the Steel Corporation has gone even beyond the capacity and equipment of its own works, and has aided the manufacturers of other steel products to enter the export trade, by furnishing basic materials to them at special prices for this purpose and marketing their goods through their agencies. A list of 158 such manufacturers was furnished.

Furthermore, in order to create an outlet for its goods, the Steel Products Company will take contracts for construction work where this is necessary,

and to this end maintains a permanent engineering force in Buenos Aires. It put up the first steel building in that city, and has put up most of the steel buildings in South America. These are the alert, aggressive, and effective methods by which the steel exports of the United States were increased from $31,000,000 in 1901 to $91,000,000 in 1911. The Court is of the opinion that such efforts are possible only to such an organization, that they were a part of the plan when the Corporation was formed, and that they negative the theory that the intent of the organization was restraint upon or obstruction to trade.

Conferences With Competitors.

The only finding against the Corporation is in regard to the conferences and co-operative committees which developed under the name and as the result of the Gary dinners. The Court holds that the effect of these was to establish an understanding about prices, and that all the companies that participated were violating the law. As these conferences were discontinued before the government's suit was brought, the Court held that it would not be justified in imposing so drastic a penalty as dissolution.

The Court admits that there was "no positive and expressed obligation" to maintain certain prices, and that "no doubt among those present some silently dissented, and went away intending to do as they pleased;" it adds:

"We think that even during the period of co-operation, the prices announced and informally assented to at these meetings were not regarded at all by some of the manufacturers, for it is plain that the consumers who testified had no difficulty in buying at rates sensibly below the prices thus referred to. It is only fair to add that in our opinion the participants did not intend to act illegally. No doubt they did intend to exercise their full legal rights, but of course such exercise could not be wrong, and they believe they had succeeded in keeping within the proper limits. For the reason given, we think they were mistaken, but we acquit them of trickiness or attempted evasion."

It is perhaps pertinent to add that these conferences took place at a time, when, owing to unfavorable market conditions, there was danger that the old practices of cut-throat competition would be revived, and, although prices did give way, the effect of the conferences was to steady the market and accomplish precisely the results that the Court in another portion of its opinion has mentioned with approval.

The Influence of Big Business.

The review of the case made by the Court will confirm the already prevalent public opinion that if the law as it stands does not permit the continuance of the United States Steel Corporation along the line of its past operations, the law should be changed. In every particular the iron and steel industry is on a more satisfactory basis than before the Corporation was organized. It is more efficiently conducted by everybody in it; the standard of economic efficiency has been raised; the standard of ethics has been raised; there is a higher code of business practice than before the influence of the Steel Corporation was felt. The policy of public prices, open dealings, equal treatment, stable conditions in a great industry supplying a public necessity, is of inestimable value, and could hardly have been established in the steel industry without the leadership of an organization holding the position of the Steel Corporation. Dealers and consumers have had a consideration that they never had before. Wage-earners in the industry have fared better than ever before. Working conditions have been improved. Safety and comfort have beeen studied, wages have been increased, pensions have been provided, and the principle of co-operation has been recognized by practical arrangements for the distribution of stock. The public and the employes have been taken into the industry, and, to use a latter-day term, it has been socialized in a practical manner. In all respects the policy of the management has been a public policy, guided by an intelligent understanding that everything it did would be scrutinized by the public, and must be accounted for and justified. The Corporation has stood the test because the management was wise enough to know that the test would come, and that the result would depend upon the record of fair dealing and useful service that it had made. Moreover, the policy seems to have paid, not only by keeping the company within the law, but by enabling it to make money.

Of course it is fortunate for the stockholders of the Corporation that these sound policies have prevailed, but it is also fortunate for the public, because its attitude and policies may be permanently effected by this case. A demonstration has been afforded of the good influence that a great industrial corporation may exert, and a standard of conduct for such corporation has been established. It is fortunate that the suit was not brought until a record of ten years' workings had been made; the findings now are not based upon theories or apprehensions, but upon experience. It is proven that a great corporation, able to accomplish every economy that science and capital can devise, may have preeminence in a large field without insecurity to competitors occupying only a portion of the field, provided they occupy that portion with efficiency. The mere weight of capital, of strength to outlast them in a competition where both are losing, or to compete on a losing basis in one market while recouping in another—these advantages the Court says may not be used against them, and the Steel Corpora- has never attempted to use them. What fairer field could any competitor ask, and what better conditions could there be from the standpoint of the public?

The Value of Efficiency.

There are, unfortunately, not a few people who have no idea of the general value to the community of efficiency in all private undertakings and affairs. They have no conception of the widespread, indirect, community benefits of wealth, wherever owned. Distinguished men, leaders in public life and acting guides to social progress, have been known to declare that the economies of certain modern methods of production were of small value because the benefits were absorbed in a few large fortunes. This idea is at the bottom of much of the antagonism to large organizations; a belief that even though they are more efficient, the efficiency

benefits only a few. But the progress of the world is made by the changes in methods which enable a given task to be performed in less time than before, so that either the volume of a given product may be increased, or a portion of the labor previously employed may be transferred to other purposes. The community is interested in the multiplication of products; the more there are the greater the general distribution will be, and the more capital is accumulated and used in production, and the more effective the organization of industry is made, the greater the supply of products will be. Every economic achievement has its final result in more products.

We deplore the destruction of property and waste of energy in the war, because we see it putting a check upon production, raising the cost of necessaries, and halting the progress of the world. And yet the waste of inefficiency and mismanagement, of failure to use the most effective agencies and methods, is as real a hindrance to social progress as the waste of war.

Wages and Prices in Steel.

The growth of the Steel Corporation, as shown in the volume of tonnage and number of employes, and the movement of wages from 1902, the first full year of operations, to 1914, are shown by the following figures:

	1902	1913	1914
Production of Rolled and other finished steel products, tons	8,197,232	12,374,838	9,014,512
Employes, number...	168,127	228,906	179,353
Total pay-roll for year	120,528,343	207,206,176	162,379,907
Average earnings per employe, per year..	717	905	905

The progress of the industry over a term of years is indicated by the following table, which gives the average prices for the years named, upon the principal products. These prices are the average of 52 weekly quotations. For the year 1880 no prices are to be had for the products that show blanks, the goods not being on the market. All prices for 1880 are for iron; those for later years, excepting upon pig iron, are for steel. In 1880 the steel made in the United States went entirely into rails and tool steel. The year 1896 was one of extreme business depression, and of the most severe competition in the steel industry.

QUOTED MARKET PRICES PER GROSS TON.

Pittsburgh Base	March 1915	Year 1896	Year 1890	Year 1880 (Iron)
Bessemer Pig Iron......	$14.55	$12.02	$18.84	$32.45
Bessemer Billets, Large..	19.50	18.65	30.28	
Heavy Structural Shapes	25.76	33.75	69.44	84.45
Steel Plates—Sheared....	24.64	27.93	59.92	83.30
Merchant Steel Bars.....	25.76	24.29	48.16	65.86
Barbed Wire—Painted...	35.84	35.84	66.08	
Wire Nails.............	35.84	52.85	54.55	

Since the 1896 period of low prices, an important rise has occurred in wages, coal, and practically all items of costs, and the general tendency of commodity prices, as is well known, has been upward. The advance in the products of the Steel Corporation and of the International Harvester Company since they were organized has been much less than the advance of wages and of the principal commodities of commerce. The 251 commodities included in the price tables of the Bureau of Labor show an average advance from 1896 to 1914 of about 50 per cent., and that average is held down by the comparatively small advance made in such industries as steel-making.

The Rewards of Farming.

The article upon the profits of farming which appeared in the June number of this publication, with the story of the success of the young Iowa farmer, John Busch, has brought out considerable comment. Among the letters received is one from the veteran banker, Andrew Jay Frame, President of The Waukesha National Bank, Waukesha, Wisconsin, which adds considerable data that is both interesting and pertinent to discussion. Mr. Frame's letter is given below:

Waukesha, Wis., June 16, 1915.

National City Bank,
New York City.

Gentlemen:

In perusing your June circular, on pages 8, 9, 10, under the head of "Farming Profits," etc., you quote some rather amusing statements from various sources as to the downtrodden condition of the farmers. Even the United States Department of Agriculture bemoans that several hundred farmers in Indiana, Illinois and Iowa, after investigation, showed "but 5% interest on their capital investment, plus $408 per year, plus house rent and food supplied by the farm, for their labor and management."

Let us see about this being a calamitous condition in a comparative sense, by taking, not a narrow view of individualistic experiences, as they count for little in diagnosing any broad subject. Extremes are not evidence on which to base a rule of reason and both extremes ever were and ever will be with us to the end of time. But to the point.

According to the United States Census Report of 1910, it indicates the total values of farms, stock, machinery, etc., in 1900 as valued at approximately 20,500 millions of dollars. In 1910 these values were approximately 41,000 millions of dollars. An increase of 100% in ten years does not appear good ground for lamentation.

Again. The Report of the Commissioner of Internal Revenue for 1913, shows that out of 316,909 corporations in the United States, only 186,866 reported *any taxable income,* thus leaving 130,043 corporations *without taxable* income for 1913.

This report fuither says, the net income amounted to but 4 3-10% upon capital stock, bonded and other indebtedness.

By comparison, the farmers as a whole, do not appear to be headed toward the bankrupt court, even if some lacking in thrift or too fond of the "ardent" are heading that way. Farmers' percentage of profits seems better than business profits.

Surely any large interest that can double its assets in ten years, as faimers did in ten years, and eat, drink and be happy too out of the income, is to be congratulated.

Your circular letter quotes "An Example in Successful Farming." Permit me to add two more from life:

I recall one untutored customer of this bank, who could just write his name, who bought from me forty acres of low land for $300, some 20 years ago. He gave for payment a mortgage on it and included a small piece of his other holdings as additional security. At that time he was not worth over $500 above his debts. He cleared that debt so quickly that he astonished us. He has been buying real estate ever since and now owns two or three farms, covering several hundred acres, and is worth at least $20,000. I never charged him over 5% for money. He paid whenever he had the money to spare, and that was often.

Second. Seven years ago one of our customers bought a 100-acre farm near Waukesha for $10,000. He paid cash—all he had—$3,000. I loaned him on it, $4,700. He gave a second mortgage for the balance, $2,300. To-day

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JUNE 25, 1915.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	3,419	4,478	1,863	3 288	2,609	1,581	4,485	2,113	1,103	3,150	2,268	1,003	31,360
Held by the banks	12.824	107,985	15,718	13,825	4.925	3,781	29.982	8.121	7.078	6,682	3,771	9,135	223,827
Total gold reserves	16,243	112,463	17,581	17,113	7,534	5,362	34,467	10,234	8,181	9,832	6,039	10,138	255,187
Legal tender notes, Silver certif's and Sub. coin	348	37,619	3,295	853	103	276	3,122	1.075	4	468	682	3	47,848
Total Reserves	16,591	150,082	20,876	17,966	7,637	5,638	37,589	11,309	8,185	10,300	6,721	10,141	303,035
Bills discounted and Loans													
Commercial paper	296	540	653	784	7,378	4,399	1,187	744	1,082	611	6,455	1,867	
Bank acceptances	2.041	4.631	975	213			475	342	168	632		902	
Total	2,337	5.171	1,628	997	7,378	4.399	1,662	1,086	1,250	1,243	6,455	2,769	36,375(c)
Investment U. S. Bonds.			194	485			3,725	242	1,025	930		1,000	7,601
Municipal Warrants	2,228	3,246	1,291	1,507	1		1,515	287	468	230		636	11,509
Due from other F.R. Banks net	2,101		2,067	1,530	1,285	242	7,612	607	157	548	648	409	8,311(b)
Federal Reserve Notes, net	357	4,466	51	283			2,306	60	284			1,317	9,124
All other resources	486	153	734	160	109	235	195	2,787	56	476	45	65	5.501
TOTAL RESOURCES	24,100	163,118	26,841	22.928	16.410	10,514	54,604	16,478	11,425	13,727	13,869	16,337	381,456
LIABILITIES													
Capital Paid in	4.802	9 962	6,225	5,976	3,364	2,414	6,606	2,790	2,421	2,780	2,926	3,934	54,200
Reserve Deposits, net	18,588	141,844	20,616	16,952	7,957	5,253	47,998	13,688	9,004	10,475	6,571	12,403	311,349
Due to other F. R. Banks net (b)		8,895											
Federal Reserve notes in circulation—Net Amt.					5,001	2,803				472	4,341		12,617(a)
All other Liabilities	710	2,417			88	44					31		3,290
TOTAL LIABILITIES	24,100	163,118	26,841	22,928	16.410	10,514	54,604	16,478	11,425	13,727	13,869	16,337	381,456

(a) Total Reserve notes in circulation, 72,489. After deducting gold and lawful money in hands of Federal Reserve Agents, 60,232 for retirement of outstanding notes, the net liabilities of Reserve Banks upon outstanding notes, amount to 12,617.
(b) After deduction of items in transit between Federal Reserve Banks, 8,311, the Gold Reserve against Net Liabilities is 80.8% and the cash reserve is 96.0%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 98.3%.
(c) Maturities of bills discounted and loans: 30 days, 14,333; 60 days, 10,070; other maturities, 11,972; Total: 36,375.

he is worth from $25,000 to $30,000, and owes no man anything. Thrift and dairying did it. He paid 5% for loans and reduced the principal at his pleasure.

This rule of paying at any interest date, any reaeasonable sums on principal, has been good with us for fifty years, and upsets some of the theories of the long time amortization loan plans so much paraded before an unsuspecting public. These amortization pleas are largely for votes and not for use in the great garden sections of our developed country.

Our thousands of independent banks care for farmers generally, and for any one to suggest to live farmers in well settled sections that they borrow on any long time amortization plan, would get a cold shoulder instanter. Laggards only want it.

Last week I attended a "Guernsey Breeders' Association" meet at a farm house a few miles from Waukesha and counted 65 motor cars there and only ten single buggies drawn by horseflesh. Lo! the poor farmer. Here he pays 5% for money on first-class loans—the same as merchants do. In the 60s he paid 10 to 12%. Merchants likewise. If some philanthropists desire to loan generous amounts on farms in undeveloped sections at low interest rates, they can probably soon own farms and then help work out practically their laudable efforts.

Under the law of supply and demand for money we are making rapid progress. Let us have a little less politics and a little more common sense. Twenty-five thousand country banks (the farmers owning a majority of them), insurance, mortgage, loan and trust companies, private individuals, etc., in the United States are caring for the farmers in practically every legitimate way now. The farmers' great prosperity is ample evidence of this fact. Socialistic schemes for farmers are just as much a blight on human progress as in other directions.

As we have had a general housecleaning, I repeat "Let us stop busting trusts and turn our energies to busting distrust." I believe, distrust is our most serious obstacle to greater progress.

ANDREW JAY FRAME.

Aldrich-Vreeland Act Expires.

The Aldrich-Vreeland Act would have expired by its own terms on June 30, 1914, but it was extended one year by a provision in the Federal Reserve Act, the intention being to keep it in force until the Federal Reserve system was in full working order. This was most fortunate, for the Aldrich-Vreeland Act saved the country from a disastrous panic following the outbreak of the European War.

The original bill for this Act as drawn by Senator Aldrich, provided only for the issue of emergency currency by the Secretary of the Treasury, against deposits of municipal and state bonds. The House amended it by providing for other issues through Currency Associations, based upon commercial paper, the idea that had been illustrated by the clearing house issues of 1907. Neither Senator Aldrich or Mr. Vreeland, who, as Chairman of House Committee on Banking and Currency, drafted the amendment regarded the act as anything more than a temporary expedient, and the act carried a provision for a National Monetary Commission to devise a complete system. The bankers of the country did not take kindly to the Aldrich-Vreeland Act, and the wiseacres who aim to oppose everything that the bankers are supposed to really favor were violently opposed to it. A desperate effort was made to talk it to death in the Senate, and it was denounced as the sum of all financial villainies, but it passed, and upon the one occasion when it was used rendered very great services to the country.

State Banks in the Reserve System.

The Federal Reserve Board has recently issued an interesting circular with reference to membership of State banks. The Board has sought "to establish only such reasonable standards of administration as will be generally recognized as necessary to protect the Federal Reserve System and the National banks in the System."

The Board is not disposed to impose arbitrary restrictions with reference to loans on real estate or mortgages, which would embarrass properly conducted State banks in applying for membership. The circular points out the

difference in the status of National and State banks in that, under the law, it is obligatory that National banks *shall* join, and State banks *are permitted* to join the System. The Board, under its discretionary authority, has issued a regulation permitting banks organized under State charters to withdraw from the System without going into liquidation. Circular number 14 and regulation "M," issued June 7, 1915, give the details of the plan. These circulars are accompanied by form 83, which is to be used in making application for stock.

Assessment Levied on Federal Reserve Banks.

The Federal Reserve Board has levied an assessment of one-tenth of one per cent. on the gross capital against the Federal Reserve banks for the purpose of defraying general expenses in connection with the work of the Board from July 1 to December 31, 1915, estimated to amount to $108,447. The first assessment levied November 2, 1914, was for $431,768.40, which included the cost of the preparation of the Federal Reserve notes.

Three Per Cent Discount Rate.

On June 24, the Federal Reserve Board approved a three per cent. discount rate for loans of ten days' maturity at the Federal Reserve banks of New York, Philadelphia, San Francisco and St. Louis.

This is the lowest rate established by the Federal Reserve Board, and it was determined upon after careful investigation.

Establishing a Branch Bank at New Orleans.

On June 24 the Federal Reserve Board announced that they had authorized the Federal Reserve Bank of Atlanta, Georgia to open a branch in New Orleans, Louisiana. While no definite assignment of territory has been announced with reference to the New Orleans branch, it is intended to be of service to a large belt of territory which is tributary to the Southern seaport.

Discount Rate on June 30th

The rates in force on June 30th, at the different Federal Reserve Banks were as follows:

Class of Paper	Boston	New York	Philadelphia	Cleveland
10 days...		3	3	
30 days...	4	4	4	4
60 days...	4	4	4	4
90 days...	4½	4	4½	4½
Longer....	5	5	5	5
	Richmond	**Atlanta**	**Chicago**	**St. Louis**
10 days...				3
30 days...	4	4	4	4
60 days...	4	4	4	4
90 days...	4½	4½	4½	4½
Longer....	5	5	5	5
	Minneapolis	**Kansas City**	**Dallas**	**San Francisco**
10 days...				3
30 days...	4	4	4	3½
60 days...	4	4	4	4
90 days...	5	4½	4½	4½
Longer....	5	5	5	6

The rate for acceptances in Boston, New York, Chicago, Minneapolis, Cleveland, San Francisco and St. Louis are announced by the Federal Reserve Board as—minimum, 2%—maximum, 4%.

THE NATIONAL CITY BANK OF NEW YORK.

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